

1997
ANNUAL
REPORT

CORPORATE PROFILE

Rapidfire Resources Ltd. is a Calgary based junior oil and gas company with exploration and development projects in central Alberta, northeastern British Columbia and southeastern Saskatchewan.

To minimize risk and optimize returns to the shareholder, Rapidfire's strategy emphasizes the acquisition of reasonably priced oil and gas producing properties with opportunities for development. All drilling is conducted in proven and semi-proven areas where the expertise of the technical team can be fully utilized.

Rapidfire was founded in December, 1995 and was listed on the Alberta Stock Exchange on March 19, 1997 under the trading symbol RPF. As of June 30, 1997 the Company had 11,434,650 common shares and 4,856,150 common share purchase warrants issued and outstanding.

Rapidfire's Head Office is located at:
1720, 510 - 5th Street S.W., Calgary, Alberta T2P 3S2.

NOTICE OF ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held on December 16, 1997 at 10:00 a.m. in the Aberhart Room at the Westin Calgary Hotel, 320 - 4th Avenue S.W., Calgary, Alberta. Shareholders are encouraged to attend and, if unable to do so, to complete and return the enclosed proxy form to Rapidfire's Head Office or to Alberta Compliance Services, at 2350, 205 - 5th Avenue S.W., Calgary, Alberta T2P 3H7, on or before December 12, 1997.

SYMBOLS

- Oil Well
- ☼ Gas Well
- ⊗ Service Well
- ⊕ Dry and Abandoned Well
- Well Horizontal Well
- Location
- ⊗ Injector
- ⊗ Battery Site

MESSAGE TO SHAREHOLDERS

The Management is pleased to present Rapidfire's first Annual Report as a public company. At this time our plans for Rapidfire are being successfully implemented and the Company is growing as forecasted.

Rapidfire is in a strong cash position with no debt. Cash flow has been established with the purchase of a producing oil property near Veteran, Alberta. Income will continue to increase as shut-in gas wells are placed on production and field operations on new properties are optimized. Rapidfire's reserves have steadily increased over the past year and the Company is expanding its asset base into additional low risk areas, thereby securing the solid foundation necessary for continued growth.

Rapidfire's acquisition philosophy is to focus primarily on privately generated projects. This approach has resulted in the successful acquisition of low-risk properties showing projected payouts of less than three years. The extensive experience of our technical staff in all areas of Western Canada ensures the reliability of property evaluations.

Colleagues in the industry have proven beneficial in generating an ongoing succession of opportunities. Alliances are being established with selected companies, based on their integrity and complementary abilities. This will allow Rapidfire to share drilling risk and extend its asset base through reciprocal offers.

The corporate direction is to continue development of current core areas and to expand into new, low-risk areas as well. We are confident that the Company will be capable of functioning independently of the capital markets. Timing of future share issues can then be decided based upon opportunity, not need.

Management takes pride in Rapidfire's accomplishments in 1997 and looks forward to building on that success in 1998.

On behalf of the Management and Board of Directors, I would like to thank you for your interest and support.

Richard H. Johnson
President



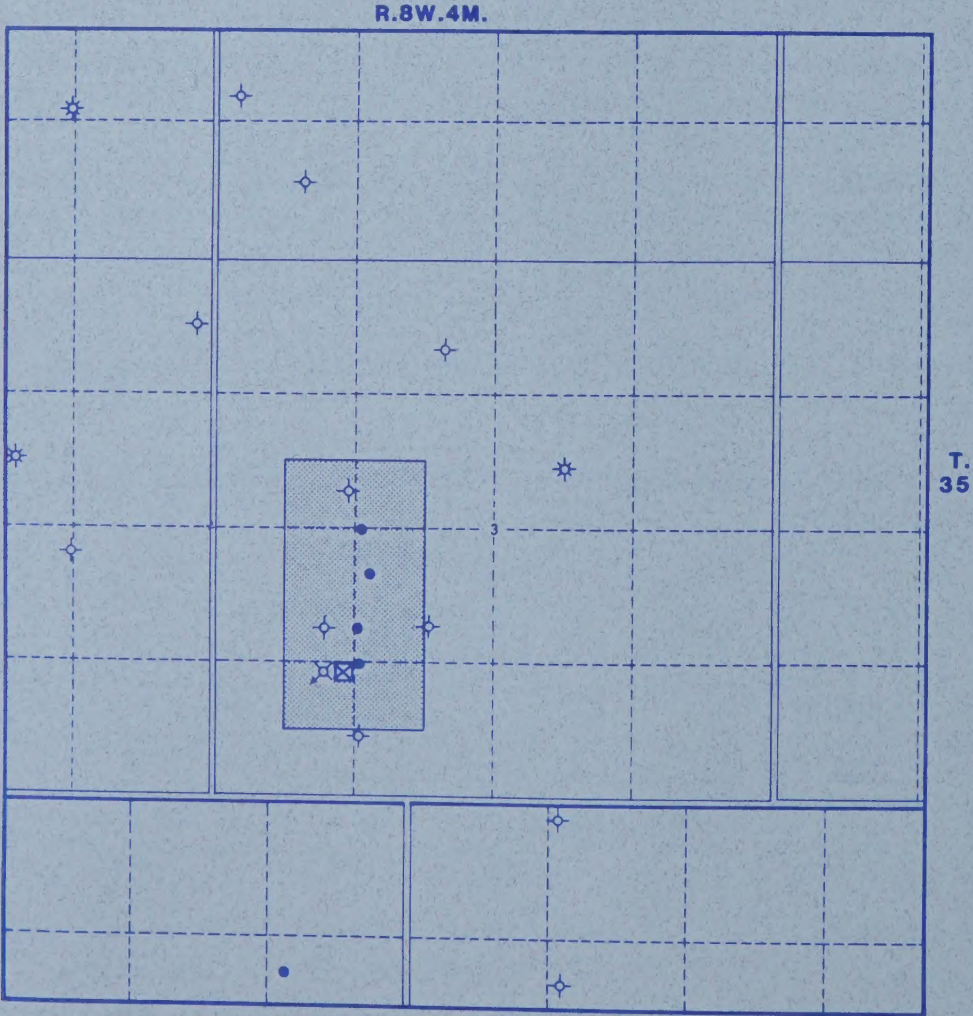
VETERAN

Rapidfire acquired a 100% working interest in a producing property near Veteran, Alberta in June 1997. The property includes four producing oil wells and a battery with oil cleaning and water disposal facilities. Current production is 25 - 30 barrels of oil per day from the Ellerslie formation.

At present the water disposal system injects third party water at a daily rate of 200 barrels but has the capacity to dispose of over 2,000 barrels of water per day. This gives Rapidfire an opportunity to expand this sector of the Company's business.

No additional drilling is anticipated in the area at this time; however, increased water disposal for other companies in the area will increase the cash flow for the project. Renewed stimulation of the producing wells is being considered to enhance the daily oil production.

The current operation generates a net operating income of approximately \$200,000. annually.



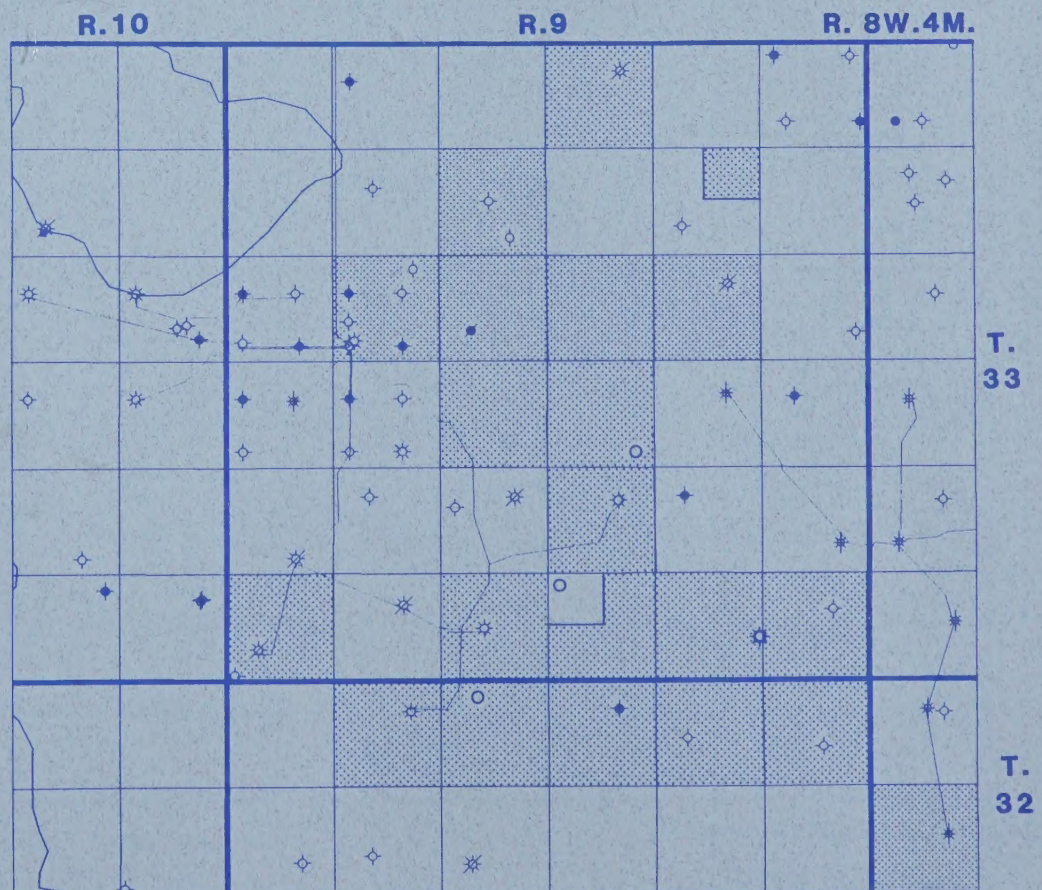
KIRKPATRICK LAKE

Rapidfire owns interests varying from 12.5% to 100% in approximately 12,800 acres in the Kirkpatrick Lake area of east-central Alberta. The area is 30 miles northeast of Hanna, Alberta and has easy, year-round surface access.

There are a total of six shut-in Belly River and Viking gas wells on the property, three of which are already connected to and await the start-up of the Koch Exploration Ltd. compressor plant located at 4-20-33-9 W4M. The Company has an interest in three additional shut-in gas wells, which it is planning to tie-in to the same facility. A total production rate of 1,000 mcf/d net to Rapidfire is expected when all wells are placed on production.

Sweet dry gas reserves are located in the shallow Belly River and Viking formations. Development of additional reserves is relatively inexpensive due to low drilling costs and the existence of an extensive infrastructure of pipelines and roads in the area.

Two Belly River wells and one Viking well are planned for the first quarter of 1998 and are expected to add 600 mcf/d net to production.



Kirkpatrick Lake, Alberta

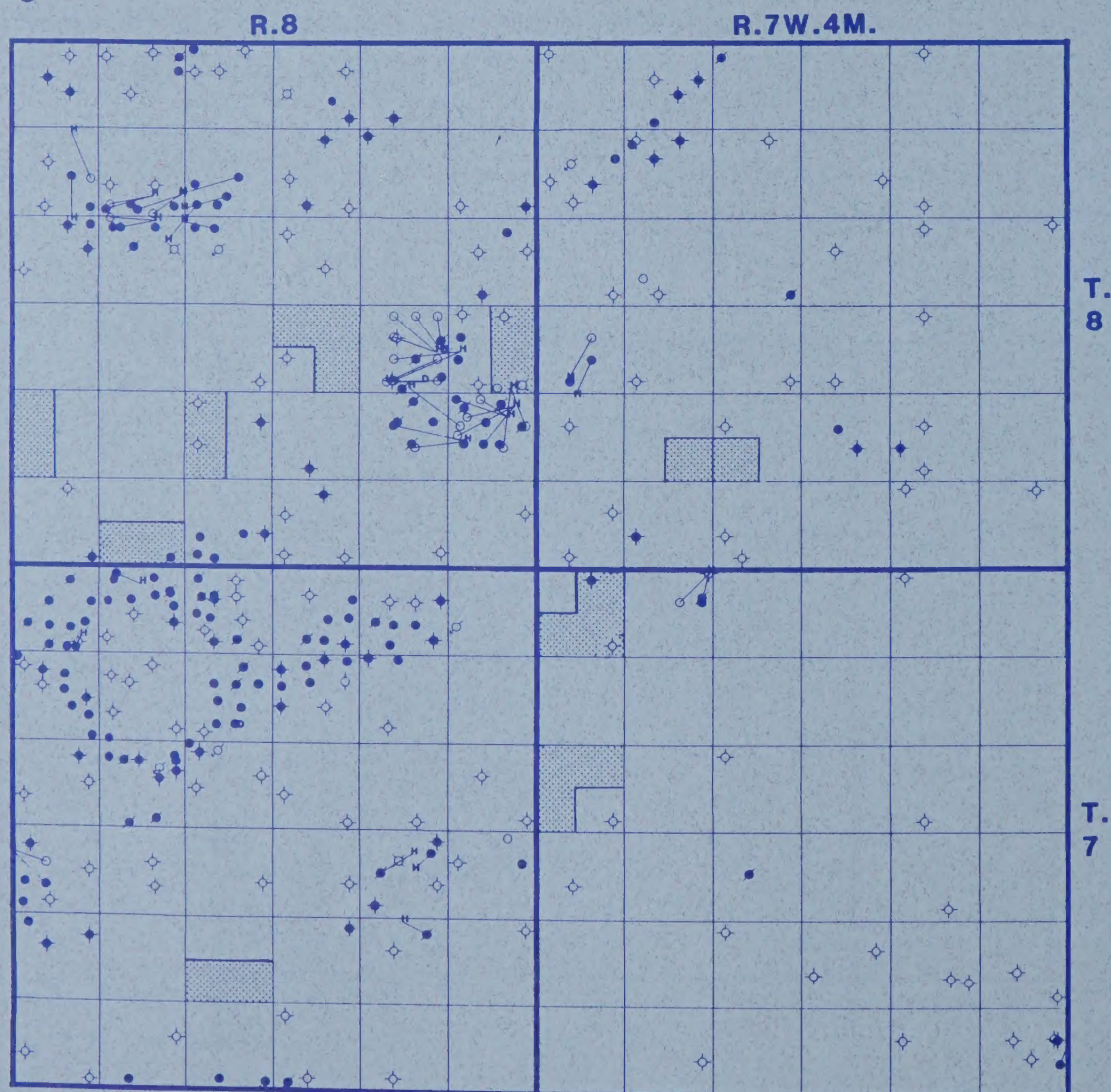
 Rapidfire Land

SOUTHEASTERN SASKATCHEWAN

In November 1996 Rapidfire sold its interest in wildcat acreage centered in the Talmage area but retained the lands in the Stoughton block (Twp. 7 & 8 Rge. 7 & 8 W2M). The current holdings in southeastern Saskatchewan consist of 3,450 gross acres (2,430 net acres).

Rapidfire is reviewing several seismic options and property exchange offers which have been made on some of the Stoughton holdings. Increased interest has occurred on these lands because of the recent prolific Red River oil discovery in the nearby Weyburn area.

Rapidfire plans to farm out these lands or enter into joint ventures to prove up the acreage.



Stoughton, Saskatchewan

 Rapidfire Land

FORT ST. JOHN

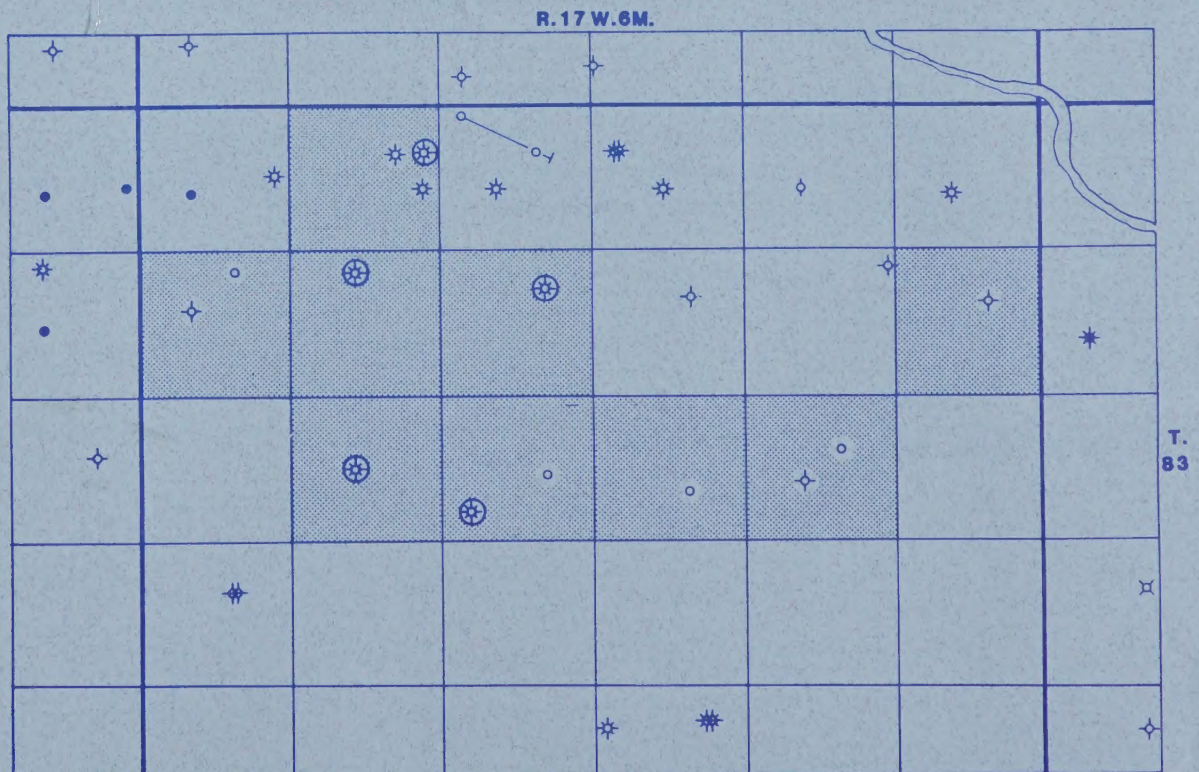
Rapidfire currently holds a 10% interest in 5,760 acres of petroleum and natural gas leases in the Fort St. John area of northeastern British Columbia. The acreage contains five cased gas wells, two of which were drilled in December 1996, with Rapidfire paying 20% of the costs.

By participating in the drilling and completion of these wells Rapidfire will receive 20% of the production until the Company has recouped all of its earning costs. The Company will have a 10% interest in all production thereafter.

This area is underlain by regional Bluesky and Gething gas-bearing sands. All five wells encountered the Bluesky porosity indicating an extensive gas reservoir. Two wells have penetrated a gas zone in the Gething. Production testing will begin as soon as testing equipment becomes available.

Total production from this program is expected to be 4,000 mcf/d, which will net Rapidfire 1,000 mcf/d.

Four additional wells are planned for the Fort St. John area after the current wells have been fully evaluated.



Ft. St. John, British Columbia

 Rapidfire Land

AUDITORS' REPORT

October 28, 1997

*To the Shareholders of
Rapidfire Resources Ltd.*

We have audited the balance sheets of **Rapidfire Resources Ltd.** as at June 30, 1997 and 1996 and the statement of income and retained earnings for the year ended June 30, 1997 and the statement of changes in financial position for the periods ended June 30, 1997 and 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 1997 and 1996 and results of operations for the year ended June 30, 1997 and the changes in its financial position for the periods ended June 30, 1997 and 1996 in accordance with generally accepted accounting principles.

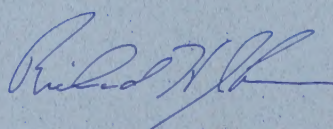
Paul Watalano

Chartered Accountants

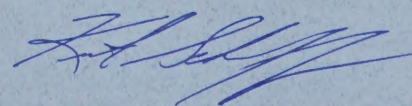
BALANCE SHEET

	June 30	
	1997	1996
Assets		
Current assets		
Cash and short-term deposits	\$ 790,082	\$ 44,030
Accounts receivable and other	61,765	28,096
Prepaid expenses	75,651	40,307
	927,498	112,433
Property, plant and equipment (Note 3)	1,968,965	1,210,576
	\$ 2,896,463	\$ 1,323,009
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 54,236	\$ 85,009
Note payable, with interest at bank rate plus 1% per annum (Note 5)	-	275,000
	54,236	360,009
Deferred income taxes	112,459	-
Shareholders' Equity		
Share capital (Note 4)	2,668,399	963,000
Retained earnings	61,369	-
	2,729,768	963,000
	\$ 2,896,463	\$ 1,323,009

Approved by the Board



Richard H. Johnson
President



Kurt Schwartzenberger
Secretary-Treasurer

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended June 30, 1997

Revenue

Oil and gas sales	\$	7,664
Interest income		10,804
Gain on disposal of assets and other		324,033
		342,501

Expenses

Depletion, depreciation and amortization		6,124
Operating		53,827
General and administrative		171,775
		231,726

Income before income taxes

110,775

Less: Provision for deferred income taxes

(49,406)

Net income and retained earnings, end of year

\$ 61,369

Basic earnings per share

\$ 0.008

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended June 30 1997	Period ended June 30 1996
Cash provided by (used in) operating activities		
Net income	\$ 61,369	\$ -
Non-cash items		
Depletion, depreciation and amortization	6,124	-
Deferred income taxes	49,406	-
Gain on sale of unproved oil and gas properties	(317,386)	-
	(200,487)	-
(Decrease) increase in working capital	(99,786)	291,606
	(300,273)	291,606
Cash (used in) provided by investing activities		
Purchase of property, plant and equipment	(864,513)	(1,210,576)
Proceeds from sale of unproved oil and gas properties	317,386	-
	(547,127)	(1,210,576)
Cash provided by (used in) financing activities		
Initial issue of common shares	-	963,000
Shares issued in Private Placement (net of issue costs)	141,375	-
Initial Public Offering (net of issue costs)	1,627,077	-
Repayment of note payable	(175,000)	-
	1,593,452	963,000
Increase in cash	746,052	44,030
Cash, beginning of the period	44,030	-
Cash, end of the period	\$ 790,082	\$ 44,030

NOTES TO FINANCIAL STATEMENTS

June 30, 1997

1 *Incorporation*

Rapidfire Resources Ltd., was originally incorporated as 677861 Alberta Ltd., as a privately held corporation under the laws of Alberta on December 11, 1995. The Corporation changed its name to Pinpoint Resources Ltd. on January 23, 1996 and subsequently changed its name to Rapidfire Resources Ltd.

2 *Significant accounting policies*

(a) *Property, plant and equipment*

Oil and gas

The Corporation follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of non-producing properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs. These amounts are accumulated in separate cost centres for each country.

Costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved or become impaired.

Oil and gas properties are subject to a ceiling test under which their carrying value is limited to the undiscounted future net revenue from production of estimated proved oil and gas reserves, based on year end prices, plus the unimpaired costs of non-producing properties less future administration and financing costs, and site reclamation and abandonment costs and income taxes.

Operations

The Corporation commenced commercial operations during the year ended June 30, 1997; consequently, no statement of operations is provided for the period ended June 30, 1996.

A provision for depletion, depreciation and site restoration costs is determined using the unit-of-production method based on the Corporation's share of gross proved reserves of oil and gas.

(b) *Earnings per share*

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year.

NOTES TO FINANCIAL STATEMENTS

June 30, 1997

3 *Oil and gas properties*

	1997	1996
Oil and gas properties	\$ 1,940,717	\$ 1,210,576
Office equipment	34,236	-
	<u>1,974,953</u>	<u>1,210,576</u>
Less: Accumulated depreciation and depletion	(5,988)	-
	<u>\$ 1,968,965</u>	<u>\$ 1,210,576</u>

During the period, the Corporation capitalized general and administrative costs of \$21,000 (1996 - \$69,121). The properties acquired from related parties (see Note 5) have been recorded at amounts indicated by the vendors as being their carrying cost of the properties.

4 *Share capital*

Authorized

Unlimited number of common shares without nominal or par value.

	Number of shares	Value
Issued		
Issued for cash	500,000	\$ 5,000
Issued for properties (i)	4,900,000	761,500
Issued in private placement for cash	786,000	196,500
	<u>6,186,000</u>	<u>\$ 963,000</u>
Balance as at June 30, 1996		
Issued in private placement for cash (net of issue costs) (ii)	392,500	78,322
Initial Public Offering (net of issue costs) (iii)	4,856,150	1,627,077
	<u>11,434,650</u>	<u>\$ 2,668,399</u>

- (i) Recorded at carrying value of vendor's properties acquired in exchange for shares issued.
- (ii) Pursuant to an Agency Agreement date December 5, 1996, between the Corporation and C.M. Oliver & Company Limited, the Corporation issued 392,500 common shares on a flowthrough basis for net proceeds of \$141,375 less a deferred income tax allocation of \$63,053.

NOTES TO FINANCIAL STATEMENTS

June 30, 1997

(iii) Pursuant to the Agency Agreement, the Corporation issued 4,856,150 A Units comprised of one common share and one common share purchase warrant for net proceeds of \$1,627,077. The purchase warrants are exercisable at any time up to February 27, 1998 at an exercise price of \$0.50 per common share. The Agent was also granted 524,865 purchase warrants exercisable at any time up to August 27, 1998 at an exercise price of \$0.40 per common share.

As at June 30, 1997, options to acquire 525,000 shares were granted to employees at a price of \$0.32 per share and are exercisable to March 20, 2002.

5 *Related party transactions*

The Corporation conducts business with related parties at prices and terms which, in the opinion of management, approximate fair value. Total costs (general and administrative costs as well as capitalized exploration costs) from related parties were \$168,196 (1996 - \$45,000) for the year ended June 30, 1997. Included in accounts payable is an amount of nil (1996 - \$18,260) owing to related parties.

In the period ended June 30, 1996, properties in the amount of \$1,036,500 were acquired from companies with common directors and shareholders in exchange for common shares of the Corporation and issuance of a note payable in the amount of \$275,000. These acquisitions were recorded at the carrying cost of the vendors. Subsequently, the note payable was reduced to \$175,000 due to a revaluation of the properties acquired. The carrying value of the properties acquired was also reduced by the same amount.

CORPORATE INFORMATION

DIRECTORS

Richard H. Johnson, P. Eng.

Ray D. Schwartzberger, P. Geol.

Kurt E. Schwartzberger, P. Geol.
Audit Committee Member

John Courtland Mackid, P. Eng., MBA
Audit Committee Member

Clive O. Llewellyn, B.A., M.A., LLB.
Audit Committee Member

OFFICERS

Richard H. Johnson, P. Eng.
President

Ray D. Schwartzberger, P. Geol.
Vice President

Kurt E. Schwartzberger, P. Geol.
Secretary / Treasurer

Timothy S. Hoar, LLB.
Assistant Secretary

TRANSFER AGENT

Montreal Trust Company of Canada
600, 530 - 8th Avenue SW
Calgary, AB T2P 3S8

BANK

Canadian Western Bank
441 - 5th Avenue SW
Calgary, AB T2P 2V1

AUDITORS

Price Waterhouse,
Chartered Accountants
1200, 425 - 1st Street SW
Calgary, AB T2P 3V7

TRADING SYMBOL

RPF The Alberta Stock Exchange
RPF.WT

CORPORATE ADDRESS

1720, 510 - 5th Street SW
Calgary, AB Canada T2P 3S2

Telephone: (403) 233-7338
Fax: (403) 233-7301

INTERNET

[http: //www.rapid-fire.com](http://www.rapid-fire.com)
e-mail: info@rapid-fire.com

